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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-95272; File No. SR-EMERALD-2022-23]

Self-Regulatory Organizations; MIAX Emerald, LLC; Notice of Filing and Immediate

Effectiveness of a Proposed Rule Change to Amend Exchange Rule 518, Complex Orders,

and Exchange Rule 515, Execution of Orders and Quotes, to Permit Pricing of Stock-

Option Complex Strategies in any Decimal Price the Exchange Determines

July 13, 2022.

Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934

("Act")[1] and Rule 19b-4 thereunder,[2] notice is hereby given that on July 1, 2022, MIAX

Emerald, LLC ("MIAX Emerald" or "Exchange") filed with the Securities and Exchange

Commission ("Commission") a proposed rule change as described in Items I and II below, which

Items have been prepared by the Exchange. The Commission is publishing this notice to solicit

comments on the proposed rule change from interested persons.

I.   Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed
        Rule Change

The Exchange proposes to amend its Rulebook to permit pricing of stock-option complex

strategies in any decimal price the Exchange determines.

The text of the proposed rule change is available on the Exchange's website at

http://www.miaxoptions.com/rule-filings/emerald at MIAX Emerald's principal office, and at

the Commission's Public Reference Room.

II.   Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the
        Proposed Rule Change

In its filing with the Commission, the Exchange included statements concerning the

purpose of and basis for the proposed rule change and discussed any comments it received on

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[1]   15 U.S.C. 78s(b)(1).

[2]   17 CFR 240.19b-4.

the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

        A.   <u>Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change</u>

        1.   <u>Purpose</u>

The Exchange proposes to amend Exchange Rule 518, Complex Orders, and Exchange Rule 515, Execution of Orders and Quotes, to permit pricing of stock-option complex strategies in any decimal price the Exchange determines. The Exchange notes that this proposal is substantively identical to a recent proposal by the MIAX Options Exchange that was noticed by the Commission.[3]

<u>Background</u>

In August 2019, the Exchange adopted rules governing the trading in, and detailing the functionality of the Emerald Options System[4] in the handling of complex orders on the Exchange.[5] The Exchange defines a "complex order" as any order involving the concurrent purchase and/or sale of two or more different options in the same underlying security (the "legs" or "components" of the complex order), for the same account, in a ratio that is equal to or greater than one-to-three (.333) and less than or equal to three-to-one (3.00) and for the purposes of executing a particular investment strategy. Mini-options may only be part of a complex order that includes other mini-options. Only those complex orders in the classes designated by the

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[3]   <u>See</u> Securities Exchange Act Release No. 94836 (May 3, 2022), 87 FR 27670 (May 9, 2022) (SR-MIAX-2022-17) (Notice of Filing and Immediate Effectiveness of a Proposed Rule Change by Miami International Securities Exchange, LLC to Amend Exchange Rule 518, Complex Orders and Exchange Rule 515, Execution of Orders and Quotes, To Permit Pricing of Stock-Option Complex Strategies In any Decimal Price the Exchange Determines).

[4]   The term "System" means the automated trading system used by the Exchange for the trading of securities. <u>See</u> Exchange Rule 100.

[5]   <u>See</u> Securities Exchange Act Release No. 85345 (March 18, 2019), 84 FR 10848 (March 22, 2019) (SR-EMERALD-2019-13).

Exchange and communicated to Members[6] via Regulatory Circular with no more than the applicable number of legs, as determined by the Exchange on a class-by-class basis and communicated to Members via Regulatory Circular,[7] are eligible for processing. A Post-Only order may not be a component of a complex order and will be rejected by the System.[8]

A complex order can also be a "stock-option order" as described further, and subject to the limitations set forth, in Interpretation and Policy .01 of this Rule. A stock-option order is an order to buy or sell a stated number of units of an underlying security (stock or Exchange Traded Fund Share ("ETF")) or a security convertible into the underlying stock ("convertible security") coupled with the purchase or sale of options contract(s) on the opposite side of the market representing either (i) the same number of units of the underlying security or convertible security, or (ii) the number of units of the underlying stock necessary to create a delta neutral position, but in no case in a ratio greater than eight-to-one (8.00), where the ratio represents the total number of units of the underlying security or convertible security in the option leg to the total number of units of the underlying security or convertible security in the stock leg. Only those stock-option orders in the classes designated by the Exchange and communicated to Members via Regulatory Circular with no more than the applicable number of legs as determined by the Exchange on a class-by-class basis and communicated to Members via Regulatory Circular,[9] are eligible for processing.[10]

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[6]   The term "Member" means an individual or organization approved to exercise the trading rights associated with a Trading Permit. Members are deemed "members" under the Exchange Act. See Exchange Rule 100.

[7]   See MIAX Emerald Regulatory Circular 2019-67, Trading of Complex Orders on MIAX Emerald (August 13, 2019) available at https://www.miaxoptions.com/sites/default/files/circular-files/MIAX_Emerald_RC_2019_67.pdf.

[8]   See Exchange Rule 518(a)(5).

[9]   See supra note 7.

[10]   See Exchange Rule 518(a)(5).

Additionally, the Exchange offers a Complex Qualified Contingent Cross Order or "cQCC" Order which is comprised of an originating complex order to buy or sell where each component is at least 1,000 contracts that is identified as being part of a qualified contingent trade, as defined in Rule 516, Interpretations and Policies .01,[11] coupled with a contra-side complex order or orders totaling an equal number of contracts. The trading of cQCC Orders is governed by Rule 515(h)(4).[12]

Exchange Rule 515(h)(4) currently provides that, cQCC Orders, as defined in Rule 518(b)(6), are automatically executed upon entry provided that, with respect to each option leg of the cQCC Order, the execution (i) is not at the same price as a Priority Customer Order on the Exchange's Book; and (ii) is at or between the NBBO. The System will reject a cQCC Order if, at the time of receipt of the cQCC Order: (i) the strategy is subject to a cPRIME Auction pursuant to Rule 515A, Interpretation and Policy .12 or to a Complex Auction pursuant to Rule 518(d); or (ii) any component of the strategy is subject to a SMAT Event as described in Rule 518(a)(16). Further paragraph (A) of Exchange Rule 515(h)(4) provides that cQCC Orders will be automatically canceled if they cannot be executed. Paragraph (B) of Exchange Rule 515(h)(4) provides that, cQCC Orders may only be entered in the minimum trading increments applicable to complex orders under Rule 518(c)(1)(i). Paragraph (C) of Exchange Rule

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[11] A "qualified contingent trade" is a transaction consisting of two or more component orders, executed as agent or principal, where: (a) At least one component is an NMS Stock, as defined in Rule 600 of Regulation NMS under the Exchange Act; (b) all components are effected with a product or price contingency that either has been agreed to by all the respective counterparties or arranged for by a broker-dealer as principal or agent; (c) the execution of one component is contingent upon the execution of all other components at or near the same time; (d) the specific relationship between the component orders (e.g., the spread between the prices of the component orders) is determined by the time the contingent order is placed; (e) the component orders bear a derivative relationship to one another, represent different classes of shares of the same issuer, or involve the securities of participants in mergers or with intentions to merge that have been announced or cancelled; and (f) the transaction is fully hedged (without regard to any prior existing position) as a result of other components of the contingent trade. See Interpretations and Polices .01 of Exchange Rule 516.

[12] See Exchange Rule 518(b)(6).

515(h)(4) provides that, the Exchange will determine, on a class-by-class basis, the option classes in which cQCC Orders are available for trading on the Exchange, and will announce such classes to Members via Regulatory Circular.[13]

Trading of complex orders on the Exchange is governed by Exchange Rule 518, Complex Orders. Minimum increments and trade prices for complex orders are described in current subparagraph (i) of Rule 518(c)(1) which states, bids and offers on complex orders and quotes may be expressed in $0.01 increments, and the component(s) of a complex order may be executed in $0.01 increments, regardless of the minimum increments otherwise applicable to individual components of the complex order. Current subparagraph (ii) of Exchange Rule 518(c)(1) states, if any component of a complex strategy would be executed at a price that is equal to a Priority Customer[14] bid or offer on the Simple Order Book,[15] at least one other component of the complex strategy must trade at a price that is better than the corresponding EBBO.[16] Current subparagraph (iii) of Exchange Rule 518(c)(1) states, a complex order will not be executed at a net price that would cause any component of the complex strategy to be executed: (A) at a price of zero; or (B) ahead of a Priority Customer order on the Simple Order Book without improving the EBBO of at least one component of the complex strategy. Current subparagraph (iv) of Exchange Rule 518(c)(1) states, a complex order or eQuote (as defined in Interpretation and Policy .02 of this Rule) will not be executed at a price that is outside of its MPC Price (as defined in Interpretation and Policy .05(f) of this Rule) or its limit price.

Proposal

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[13]   See Exchange Rule 515(h)(4).

[14]   The term "Priority Customer" means a person or entity that (i) is not a broker or dealer in securities, and (ii) does not place more than 390 orders in listed options per day on average during a calendar month for its own beneficial account(s). See Exchange Rule 100.

[15]   The term "Simple Order Book" is the Exchange's regular electronic book of orders and quotes. See Exchange Rule 518(a)(15).

[16]   The term "EBBO" means the best bid or offer on the Simple Order Book on the Exchange. See Exchange Rule 518(a)(10).

The Exchange now proposes to (i) amend its rule pertaining to the pricing of complex orders to permit the pricing of stock-option complex strategies in any decimal price the Exchange determines; and (ii) make additional changes to the Exchange's rulebook necessary to support the implementation of the proposed pricing structure. The Exchange notes that its proposal is substantively identical to a recent proposal made by the Exchange's affiliate, MIAX Options.[17]

Rule 518 Complex Orders

Specifically, the Exchange proposes to amend subsection (c)(1) Minimum Increments and Trade Prices of Rule 518, to adopt new paragraph (ii), and to renumber current paragraph (c)(1)(ii) as paragraph (c)(1)(iii). New paragraph (c)(1)(ii) will provide that, bids and offers on complex orders, quotes, and RFR Responses for stock-option complex strategies (including a cQCC Order entered with a stock component) may be expressed in any decimal price the Exchange determines. The option component(s) of such a complex order may be executed in $0.01 increments, regardless of the minimum increments otherwise applicable to individual components of the complex order, and the stock component of such a complex order may be executed in any decimal price permitted in the equity market. The Exchange notes that its proposed rule text is identical to that of the Exchange's affiliate, MIAX Options.[18] Minimum increments less than $0.01 are appropriate for stock-option orders as the stock component can trade at finer decimal increments permitted by the equity market. Furthermore, the Exchange notes that even with the flexibility provided in the proposed rule, the individual options and stock legs must trade at increments allowed by the Commission in the options and equities markets.

To support the pricing of stock-option orders in any decimal price the Exchange determines, the Exchange is proposing to make a number of conforming changes throughout its Rulebook to clearly differentiate pricing and support of complex strategies with only option

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[17]   See supra note 3.

[18]   See MIAX Options Exchange Rule 518(c)(1)(ii).

components, (which remains unchanged under this proposal in $0.01 increments), and pricing and support of stock-option complex strategies which may be in sub-penny increments, as determined by the Exchange. The Exchange notes that the proposed changes described herein are substantively identical to changes made by the Exchange's affiliate, MIAX Options.[19]

Therefore, the Exchange proposes to make a minor conforming change to the rule text of current paragraph (c)(1)(ii) of Rule 518, which will be renumbered as paragraph (c)(1)(iii). The current rule text states that, if any component of a complex strategy would be executed at a price that is equal to a Priority Customer bid or offer on the Simple Order Book, at least one other component of the complex strategy must trade at a price that is better than the corresponding EBBO. The Exchange now proposes to amend the rule to add additional detail and specificity by stating that, if any component of a complex strategy would be executed at a price that is equal to a Priority Customer bid or offer on the Simple Order Book, at least one other **option** component of the complex strategy must trade at a price that is better than the corresponding EBBO. The Exchange believes that clarifying that the component of the complex strategy must be an option component adds additional detail to the rule and makes it clear in the Exchange's rules that a Priority Customer bid or offer must be improved by at least $0.01 by the option component of either a complex strategy with only option components or the option component of a stock-option complex strategy. The Exchange notes that its proposed rule text is identical to that of the Exchange's affiliate, MIAX Options.[20]

Additionally, the Exchange proposes to amend paragraph (i) of subsection (c)(1), Minimum Increments and Trade Prices, of Exchange Rule 518, to add additional detail and clarity to the rule text. Currently, the rule provides that, bids and offers on complex orders and quotes may be expressed in $0.01 increments, and the component(s) of a complex order may be executed in $0.01 increments, regardless of the minimum increments otherwise applicable to

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19   See supra note 3.

20   See MIAX Options Exchange Rule 518(c)(1)(iii).

individual components of the complex order. The Exchange now proposes to amend the rule text to provide that, bids and offers on complex orders, quotes, and RFR Responses for complex strategies having only option components may be expressed in $0.01 increments, and the component(s) of such a complex order may be executed in $0.01 increments, regardless of the minimum increments otherwise applicable to individual components of the complex order. The Exchange notes that its proposed rule text is identical to that of the Exchange's affiliate, MIAX Options.[21]

Paragraph (c)(1)(i) pertains to complex strategies that have only option components (as opposed to paragraph (c)(1)(ii) which pertains to stock-option complex strategies) and therefore provides that bids, offers, and RFR Responses for complex strategies having only option components may be expressed in $0.01 increments. The Exchange believes this change is necessary to differentiate between which strategies are required to be priced in $0.01 increments (complex strategies having only option components) and which strategies may be priced in an increment other than $0.01 (stock-option complex strategies). The Exchange believes this amendment provides additional detail and clarity regarding the pricing of complex strategies having only option components, which is not changing under this proposal.

The Exchange also proposes to amend the rule text of current paragraph (c)(1)(iii) of Rule 518 to make two minor conforming changes and to renumber the paragraph as new paragraph (c)(1)(iv). Currently, the rule states that, a complex order will not be executed at a net price that would cause any component of the complex strategy to be executed: (A) at a price of zero; or (B) ahead of a Priority Customer order on the Simple Order Book without improving the EBBO of at least one component of the complex strategy. The Exchange now proposes to add additional detail and specificity to the rule to state that, a complex order will not be executed at a net price that would cause any **option** component of the complex strategy to be executed: (A) at

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[21]   See MIAX Options Exchange Rule 518(c)(1)(i).

a price of zero; or (B) ahead of a Priority Customer order on the Simple Order Book without improving the EBBO of at least one **option** component of the complex strategy.[22] The Exchange believes that clarifying that the component of the complex strategy must be an option component adds additional detail and clarity to the rule. The Exchange also proposes to make a non-substantive change to existing paragraph (c)(1)(iv) to renumber the paragraph as (c)(1)(v). The Exchange notes that its proposed rule text is identical to that of the Exchange's affiliate, MIAX Options.[23]

The Exchange proposes to amend subparagraph (i) of section (c)(4), Managed Interest Process for Complex Orders, of Rule 518 to add additional detail and clarity to the rule text. The managed interest process for complex orders ensures that a complex order will never be executed at a price that is through the individual component prices on the Simple Order Book.

Currently, the rule provides that, when the opposite side icEBBO[24] includes a Priority Customer Order, the System will book and display such booked complex order on the Strategy Book[25] at a price (the "book and display price") that is $0.01 away from the current opposite side icEBBO. The Exchange proposes to amend the rule text to provide that, when the opposite side icEBBO includes a Priority Customer Order, the System will book and display such booked complex order on the Strategy Book at a price (the "book and display price") such that at least

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[22]   The Exchange also proposes to make an identical conforming change to paragraph (d)(6) of Rule 518 that is identical to MIAX Options Exchange Rule 518(d)(6).

[23]   See MIAX Options Exchange Rule 518(c)(1)(iv).

[24]   The icEBBO is a calculation that uses the best price from the Simple Order Book for each component of a complex strategy including displayed and non-displayed trading interest. For stock-option orders, the icEBBO for a complex strategy will be calculated using the best price (whether displayed or non-displayed) on the Simple Order Book in the individual option component(s), and the NBBO in the stock component. See Exchange Rule 518(a)(12).

[25]   The "Strategy Book" is the Exchange's electronic book of complex orders and complex quotes. See Exchange Rule 518(a)(17).

one option component is priced $0.01 away from the current opposite side EBBO. The EBBO is comprised of the best bid and the best offer on the Simple Order Book on the Exchange.[26]

This change supports the proposed change to 518(c)(1)(iii) which provides that if any component of a complex strategy would be executed at a price that is equal to a Priority Customer bid or offer on the Simple Order Book, at least one option component of the complex strategy must trade at a price that is better than the corresponding EBBO. Together, these changes ensure that no complex strategy (either a complex strategy with only option components or a stock-option complex strategy) will execute ahead of a Priority Customer order on the Simple Order Book without improving the EBBO of at least one option component of the complex strategy by at least $0.01.[27] The Exchange believes this change provides additional detail and clarity regarding the managed interest process for complex strategies with only option components and for stock-option complex strategies, and harmonizes the rule text to the System behavior. The Exchange notes that its proposed rule text is substantively identical to that of the Exchange's affiliate, MIAX Options.[28]

The Exchange proposes to amend paragraph (d)(4), RFR Response, of Rule 518 to make a conforming change to the rule necessary to support pricing of stock-option complex strategies in any decimal price determined by the Exchange. Currently, Rule 518(d)(4) provides that, RFR responses may be submitted in $0.01 increments. The Exchange proposes to amend this provision to provide that RFR Responses may be submitted in the increments defined in proposed subparagraphs (c)(1)(i) and (c)(1)(ii) of this Rule. This proposed change is consistent with the proposed change to Rule 518(c)(1), Minimum Increments and Trade Prices, as described above, and aligns the pricing of complex strategies with only option components in

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[26] See supra note 16.

[27] See Exchange Rule 518(c)(1)(iv) as proposed herein.

[28] See MIAX Options Exchange Rule 518(c)(4)(i) (The MIAX Options Exchange's rule text references the MBBO whereas the proposed rule text references the EBBO).

$0.01, which is not changing under this proposal, and the pricing of complex strategies with a stock component in any decimal price the Exchange determines as proposed herein. RFR responses submitted for a complex strategy having only option components may be expressed in $0.01 increments as proposed in subparagraph (c)(1)(i), whereas RFR responses submitted for a stock-option complex strategy may be expressed in any decimal price the Exchange determines as proposed in subparagraph (c)(1)(ii). This change aligns RFR responses for complex strategies with only option components to the current price interval for complex orders of $0.01, which is not changing under this proposal, and aligns the pricing interval for stock-option complex strategies with the proposed change discussed herein to be in any decimal price as determined by the Exchange.[29] The Exchange notes that its proposed rule text is identical to that of the Exchange's affiliate, MIAX Options.[30]

The Exchange proposes to amend paragraph (d)(6)(i) of Rule 518 to add additional detail and clarity to the operation of the rule necessary to support pricing of stock-option complex strategies in sub-penny increments and clarify that the pricing and processing of complex strategies with only option components will remain unchanged under this proposal. Currently, the rule states that, at the conclusion of the Response Time Interval, Complex Auction-eligible orders will be priced and executed as follows, and allocated pursuant to subparagraph (7) of Rule 518:[31] (i) Using $0.01 inside the current icEBBO as the boundary (the "boundary"), the System will calculate the price where the maximum quantity of contracts can trade and also determine whether there is an imbalance.[32]

The Exchange now proposes to amend the rule text to state that, at the conclusion of the Response Time Interval, Complex Auction-eligible orders will be priced and executed as

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[29]   The Exchange also proposes to make an identical conforming change to Rule 518(e) for cLEP Responses that is identical to MIAX Options Exchange Rule 518(e), Responses.

[30]   See MIAX Options Exchange Rule 518(d)(4).

[31]   See Exchange Rule 518(d)(6).

[32]   See Exchange Rule 518(d)(6)(i).

follows, and allocated pursuant to subparagraph (7) of Rule 518: (i) Using $0.01 inside the current icEBBO for complex strategies with only option components or using a decimal price increment (as determined by the Exchange) inside the current icEBBO for stock-option complex strategies as the boundary (the "boundary"), the System will calculate the price where the maximum quantity of contracts can trade and also determine whether there is an imbalance. This proposed change is consistent with the proposed change to Rule 518(c)(1), Minimum Increments and Trade Prices, as described above and allows the Exchange to accurately calculate prices for stock-option complex strategies. Using the same pricing increments that each complex strategy is priced in ($0.01 for complex strategies with only option components and the decimal price increment as determined by the Exchange for stock-option complex strategies) ensures that there are no calculation or rounding errors which ensures the accuracy and integrity of the Exchange's price calculations and the System's determination of the price where the maximum quantity of contracts can trade and also the System's determination of an imbalance. The Exchange believes this change adds additional detail and clarity to the rule, by clarifying current behavior as it relates to complex strategies with only option components and facilitates the proposed change to permit pricing of complex strategies with an option component in any decimal price the Exchange determines. The Exchange notes that its proposed rule text is substantively identical to that of the Exchange's affiliate, MIAX Options.[33]

The Exchange proposes to amend paragraph (d)(6)(i)(A)2.a. of Rule 518 to provide for calculations in $0.01 increments to support complex strategies with only option components and to provide for calculations in any decimal price increment as determined by the Exchange to support stock-option complex strategies. Currently, the rule provides that, if the midpoint price is not in a $0.01 increment, the System will round toward the midpoint of the dcEBBO[34] to the

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[33]   See MIAX Options Exchange Rule 518(d)(6)(i) (MIAX Options Exchange's rule text references the icMBBO whereas the proposed rule text references the icEBBO).

[34]   The dcEBBO is calculated using the best displayed price for each component of a complex strategy from the Simple Order Book. For stock-option orders, the dcEBBO for

nearest $0.01. The Exchange now proposes to amend the rule text to state that, for complex strategies with only option components if the midpoint price is not in a $0.01 increment, the System will round toward the midpoint of the dcEBBO to the nearest $0.01; for stock-option complex strategies, if the midpoint price is not in a decimal price increment as determined by the Exchange, the System will round toward the midpoint of the dcEBBO to the nearest decimal price increment as determined by the Exchange. The Exchange notes that its proposed rule text is substantively identical to that of the Exchange's affiliate, MIAX Options.[35]

Similarly, the Exchange also proposes to amend paragraph (d)(6)(i)(A)2.b. of Rule 518 to provide for calculations in $0.01 increments to support complex strategies with only option components and to provide for calculations in any decimal increment as determined by the Exchange to support stock-option complex strategies. Currently, the rule provides that if the midpoint of the highest and lowest prices is also the midpoint of the dcEBBO and is not in a $0.01 increment the System will round the price up to the next $0.01 increment. The Exchange now proposes to amend the rule text to state that, if the midpoint of the highest and lowest prices is also the midpoint of the dcEBBO and is not in a $0.01 increment for complex strategies with only option components or in a decimal price increment as determined by the Exchange for stock-option complex strategies, the System will round the price up to the next $0.01 increment for complex strategies with only option components or to a decimal price increment as determined by the Exchange for stock-option complex strategies The Exchange notes that its proposed rule text is identical to that of the Exchange's affiliate, MIAX Options.[36]

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a complex strategy will be calculated using the Exchange's best displayed bid or offer in the individual option component(s) and the NBBO in the stock component. See Exchange Rule 518(a)(8).

[35]   See MIAX Options Exchange Rule 518(d)(6)(i)(A)2.a. (MIAX Options Exchange's rule text references the dcMBBO whereas the proposed rule text references the dcEBBO).

[36]   See MIAX Options Exchange Rule 518(d)(6)(i)(A)2.b.

To properly perform the internal calculations described in Exchange Rule 518(d)(6)(i)(A)2.a. and b. correctly it is imperative that the decimal increment being used in the calculation properly aligns to the decimal quoting increment being used on the Exchange for that strategy, be it for complex strategies with only option components or stock-option complex strategies. Using the appropriate decimal increment that the strategy is priced in ($0.01 for complex strategies with only option components or any decimal price as determined by the Exchange for stock-option complex strategies) ensures that the Exchange accurately calculates the auction start price to the proper decimal precision for either complex strategies with only option components (which may only be in $0.01 increments) or stock-option complex strategies (which may be in any price increment as determined by the Exchange). The Exchange believes these changes provide additional detail and clarification regarding the differentiation in calculations for complex strategies with only option components that are priced in $0.01 increments, which remains unchanged under this proposal, and calculations for stock-option complex strategies, which may be priced in increments other than $0.01. This change is necessary to support the proposed change discussed herein to price stock-option strategies in any decimal price increment as determined by the Exchange. The Exchange notes that its proposed rule text is substantively identical to that of the Exchange's affiliate, MIAX Options.[37]

<u>Rule 515 Execution of Orders and Quotes</u>

<u>Customer to Customer Cross Orders</u>

The Exchange proposes to amend paragraph (h), Crossing Orders, of Rule 515, to clarify that Complex Customer Cross ("cC2C") pricing is not changing under this proposal. Currently, subparagraph (B) of paragraph (3), of Rule 515(h), Complex Customer Cross ("cC2C") Orders provides that cC2C Orders[38] may only be entered in the minimum trading increments applicable

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37   <u>See</u> MIAX Options Exchange Rule 518(d)(6)(i) (MIAX Options Exchange's rule text references the icMBBO whereas the proposed rule text references the icEBBO).

38   A Complex Customer Cross or "cC2C" Order is comprised of one Priority Customer complex order to buy and one Priority Customer complex order to sell at the same price

to complex orders under Rule 518(c)(1)(i). Current Rule 518(c)(1)(i) provides that the minimum trading increments applicable to complex orders is $0.01.[39] The Exchange proposes to amend subparagraph (B) to state that, cC2C Orders may only be entered in minimum trading increments of $0.01. The Exchange notes that its proposed rule text is identical to that of the Exchange's affiliate, MIAX Options.[40]

Complex Qualified Contingent Cross Orders

cQCC Orders[41] may be entered into the Exchange's System with a stock component or without the stock component. To support and facilitate the pricing proposal for stock-option strategies as proposed herein, a cQCC entered without the stock component will be treated as a complex strategy with only option components for pricing purposes (pricing in $0.01 increments only), whereas a cQCC entered with the stock component will be treated as a complex strategy with a stock component under the Exchange's new quoting structure as proposed herein. Therefore, the Exchange proposes to amend subparagraph (B) of paragraph (4), Complex Qualified Contingent Cross ("cQCC") Orders to provide that cQCC Orders may only be entered in the minimum trading increments applicable to complex orders under proposed Rule 518(c)(1)(i) or 518(c)(1)(ii) if the cQCC Order includes the stock component upon entry. The

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and for the same quantity. Trading of cC2C Orders is governed by Rule 515(h)(3). See Exchange Rule 518(b)(5).

[39]　Bids and offers on complex orders and quotes may be expressed in $0.01 increments, and the component(s) of a complex order may be executed in $0.01 increments, regardless of the minimum increments otherwise applicable to individual components of the complex order. See Exchange Rule 518(c)(1)(i).

[40]　See MIAX Options Exchange Rule 515(h)(3)(B).

[41]　A Complex Qualified Contingent Cross or "cQCC" Order is comprised of an originating complex order to buy or sell where each component is at least 1,000 contracts that is identified as being part of a qualified contingent trade, as defined in Rule 516, Interpretations and Policies .01, coupled with a contra-side complex order or orders totaling an equal number of contracts. Trading of cQCC Orders is governed by Rule 515(h)(4). See Exchange Rule 518(b)(6).

Exchange notes that its proposed rule text is identical to that of the Exchange's affiliate, MIAX Options.[42]

Additionally, the Exchange proposes to adopt new subparagraph (D) to paragraph (4) of Rule 515(h) to provide a more fulsome description of cQCC Order handling of a cQCC Order entered without the stock component and a cQCC Order entered with the stock component. New subparagraph (D) will provide that, a cQCC Order may be entered with or without the stock component. A cQCC Order entered without the stock component will be treated as a complex strategy with only option components. A cQCC Order entered with the stock component shall be subject to Rule 518.01. A Member that submits a cQCC Order to the Exchange (with or without the stock component) represents that such order satisfies the requirements of a qualified contingent trade (as described in Interpretations and Policies .01 of Rule 516) and agrees to provide information to the Exchange related to the execution of the stock component as determined by the Exchange and communicated via Regulatory Circular.[43] The Exchange notes that its proposed rule text is identical to that of the Exchange's affiliate, MIAX Options.[44]

Implementation Date

The Exchange plans to implement the proposed rule change at the end of Q3, 2022, or early Q4 of 2022, and will announce the implementation date to its Members via Regulatory Circular.

2.   Statutory Basis

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[42]   See MIAX Options Exchange Rule 515(h)(4)(B).

[43]   See proposed Rule 515(h)(4)(D) and see also MIAX Emerald Regulatory Circular 2019-66, Regulatory Requirements when entering a Qualified Contingent Cross Order ("QCC") or a Complex Qualified Contingent Cross Order ("cQCC") (August 13, 2019) available at: https://www.miaxoptions.com/sites/default/files/circular-files/MIAX_Emerald_RC_2019_66.pdf.

[44]   See MIAX Options Exchange Rule 515(h)(4)(D).

The Exchange believes that its proposed rule change is consistent with Section 6(b) of the Act[45] in general, and furthers the objectives of Section 6(b)(5) of the Act[46] in particular, in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanisms of a free and open market and a national market system and, in general, to protect investors and the public interest.

The Exchange believes that the proposed rule change benefits investors and promotes just and equitable principles of trade because it provides investors with the ability to price stock-option complex strategies with greater precision.[47] This provides investors with greater opportunities for execution as it allows for more accurate pricing of stock-option complex strategies. The net price of a complex strategy with a stock component may result in a price that is accurately expressed in a finer decimal increment than $0.01 as a result of the stock ratio being used.

Example 1 Stock-Option Complex Strategy

The current market is:

EBBO XYZ Jan 15 Put 0.95 (10) x 1.00 (10)

NBBO XYZ Stock 20.00 (100) x 20.01 (100)

Customer strategy:

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45   15 U.S.C. 78f(b).

46   15 U.S.C. 78f(b)(5).

47   The Exchange notes that other options exchanges permit stock-option orders to be priced in decimal increments. See Cboe Options Rule 5.33(f)(i)(B), Nasdaq ISE Options 3, Section 14(c)(1), Cboe EDGX Rule 21.20(f)(1)(B); and MIAX Options Exchange Rule 518(c)(1)(ii).

A customer order to Buy 1 XYZ Jan 15 Put and Buy 33 Shares of XYZ is received. The customer would like to pay $1.00 for the option and pay $20.01 for the stock for a net price $7.6033 as per the calculation of the strategy market below.

The market for the Strategy is:

Strategy Bid = (Option Bid * Option Ratio) + (Stock Bid * Stock Ratio/100)

Strategy Bid = (0.95 * 1) + (20.00 * .33)

Strategy Bid = 7.5500

Strategy Ask = (Option Ask * Option Ratio) + (Stock Ask * Stock Ratio/100)

Strategy Ask = (1.00 * 1) + (20.01 * .33)

Strategy Ask = 7.6033

Strategy market = 7.5500 x 7.6033

As the Exchange does not support stock option strategies priced in four decimal increments this strategy would be sent to a venue that supports four decimal pricing for execution.

Under the Exchange's proposal to permit stock-option complex strategies to be expressed in any decimal price as determined by the Exchange, if the Exchange determines to price stock-option complex strategies in $0.0001 increments, the above strategy could be placed on the Exchange's Strategy Book at its calculated net price. The customer who would like to pay $1.00 for the option and pay $20.01for the stock can now pay $1.00 for the option and pay $20.01 for the stock for a net price of $7.6033 as per the calculation above.

Pricing stock-option complex strategies in sub-penny increments permits more precision pricing and allows for complex strategies with a stock component to be effectively traded on the Exchange. Currently, firms that wish to execute these types of strategies will not send them to

the MIAX Emerald Exchange due to the current System limitation which constrains the price to two decimal places, whereas the strategy may be more precisely priced in sub-penny increments on exchanges that permit sub-penny pricing of stock-option complex strategies to four decimal places.[48]

Further, the Exchange believes that the proposed rule change removes impediments to and perfects the mechanisms of a free and open market and a national market system and, in general, protects investors and the public interest by offering similar functionality to Members that can be found on other competing option exchanges.[49] Competition benefits investors by providing investors an additional venue to choose from when making order routing decisions.

Additionally, the Exchange believes its proposal to leave Complex Customer Cross Order functionality unchanged promotes just and equitable principles of trade, removes impediments to and perfects the mechanisms of a free and open market and a national market system and, in general, to protects investors and the public interest. A Complex Customer Cross Order is comprised of one Priority Customer complex order to buy and one Priority Customer complex order to sell at the same price and for the same quantity.[50] Complex Customer Cross Orders are not exposed to the marketplace and are executed upon entry, provided that the execution is at least $0.01 better than the icEBBO, or the best net price of a complex order on the Strategy Book, whichever is more aggressive.[51] The Exchange believes that requiring a minimum improvement of $0.01 benefits investors and the public interest as it is not a de minimis price improvement amount. Further, the Exchange does not believe that Members on the Exchange are disadvantaged in any way by not being able to execute Complex Customer Cross Orders with a stock component in a sub-penny interval, as Members may use the cQCC Order type for stock-

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48   See id.

49   See id.

50   See Exchange Rule 518(b)(2)(d).

51   See Exchange Rule 515(h)(3).

option complex strategies, or expose their stock-option complex strategy order to the market via the Exchange's cPRIME for price improvement in sub-penny increments.

To support the pricing of stock-option orders in any decimal price the Exchange determines, the Exchange is proposing to make a number of non-substantive conforming changes throughout its rules to clearly differentiate pricing and support of complex strategies with only option components, (which remains unchanged under this proposal in $0.01 increments), and pricing and support of stock-option complex strategies, which may be in any decimal price the Exchange determines. The Exchange believes that its proposed non-substantive changes to add additional detail and clarity to the Exchange's rulebook benefits investors and the public interest as it provides transparency and eliminates the potential for confusion regarding the operation of the Exchange's rules.

B.   Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange does not believe that its proposal will impose any burden on intra-market competition that is not necessary or appropriate in furtherance of the purposes of the Act because all Members of the Exchange that transact stock-option complex strategies will be able to price stock-option complex strategies in more precise increments.

The Exchange does not believe that the proposed rule change will impose any burden on inter-market competition that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange believes that its proposal may benefit inter-market competition as other competing option exchanges offer similar price precision for stock-option complex strategies.[52]

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[52]   See CboeEDGX Exchange Rule 21.20(f)(1)(B) which provides that Users may express bids and offers for a stock-option order (including a QCC with Stock Order) in any decimal price the Exchange determines. The option leg(s) of a stock-option order may be executed in $0.01 increments, regardless of minimum increments otherwise applicable to the option leg(s), and the stock leg of a stock-option order may be executed in any decimal price permitted in the equity market; and Cboe Exchange Rule 5.33(f)(1)(B) which similarly provides that Users may express bids and offers for a stock-option order

Additionally, the non-substantive changes proposed by the Exchange will have no impact on competition as they provide additional clarity and detail in the Exchange's rules and are not changes made for any competitive purpose.

C.   Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

Written comments were neither solicited nor received.

III.   Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Because the foregoing proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A)(iii) of the Act[53] and subparagraph (f)(6) of Rule 19b-4 thereunder.[54]

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the

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(including a QCC with Stock Order) in any decimal price the Exchange determines. The minimum increment for the option leg(s) of a stock-option order is $0.01 or greater, which the Exchange may determine on a class-by-class basis, regardless of the minimum increments otherwise applicable to the option leg(s), and the stock leg of a stock-option order may be executed in any decimal price permitted in the equity market. See also Tradedesk Updates, Cboe Options Exchange Announces Support for QCC with an Equity Leg and Improved Pricing Precision on Complex Orders with an Equity Leg (March 2, 2018) (allowing a price with four decimal places on all complex orders that include a stock leg and that are routed for electronic trading) available at https://cdn.cboe.com/resources/release_notes/2018/QCC-w-equity-leg-and-CPS-4-digit-decimal.pdf; See also MIAX Options Exchange Rule 518(c)(1)(ii).

[53]   15 U.S.C. 78s(b)(3)(A)(iii).

[54]   17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

IV.   Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic comments:

- Use the Commission's Internet comment form (http://www.sec.gov/rules/sro.shtml); or

- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-EMERALD-2022-23 on the subject line.

Paper comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-EMERALD-2022-23. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (http://www.sec.gov/rules/sro.shtml). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change.

Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-EMERALD-2022-23, and should be submitted on or before **[INSERT DATE 21 DAYS AFTER DATE OF PUBLICATION IN THE FEDERAL REGISTER]**.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[55]

J. Matthew DeLesDernier,

Assistant Secretary.

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[55]   17 CFR 200.30-3(a)(12).